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January 26, 2009

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FROM: Wendy L. Watanabe *Wendy L. Watanabe*
Acting Auditor-Controller

SUBJECT: **DEPARTMENT OF PUBLIC HEALTH FISCAL REVIEW**

In July 2006, the Board of Supervisors established the Department of Public Health (DPH or Department) separate from the Department of Health Services. The programs assigned to the new Department consist of Public Health (PH), Office of AIDS Programs and Policy (OAPP), Alcohol and Drug Programs Administration (ADPA), Children's Medical Services (CMS), and the Antelope Valley Rehabilitation Center (AVRC).

We have completed a review of DPH's fiscal operations. Our review focused on evaluating the Department's internal controls and compliance with the County's fiscal policies and procedures in key areas such as revenue, expenditures, procurement, contracting, and payroll/personnel. We also reviewed DPH's budgetary performance and trust fund accounting controls. Although this report focuses on DPH's fiscal operations, we recommend that other County departments review the findings in this report and ensure the necessary controls are in place.

Summary of Key Findings

Overall, DPH operated within its budgeted Net County Cost and mostly complied with County fiscal policies and procedures. For example, in the procurement area, we reviewed a sample of cash discounts, expenditures accruals, and cellular telephone charges and found they were in compliance with County fiscal and procurement policies. However, we did note opportunities for the Department to improve its management oversight and strengthen internal controls in several areas. Below are examples of some of our findings and areas where improvement is needed.

Budgeting

During the review period, DPH collected significantly less revenue than budgeted and underspent total budgeted expenditures. Specifically, DPH's budgeted revenue in Fiscal Year (FY) 2007-08 was \$573 million and actual revenue was \$547 million or \$25.9 million less revenue collected than budgeted. In FY 2006-07, the actual revenue collected was \$28.3 million less than budgeted. Also, DPH's budgeted expenditures in FY 2007-08 were \$793 million and actual expenditures were \$763 million or \$30.4 million less actual expenditures than budgeted. In FY 2006-07, the actual expenditures were \$29.6 million less than budgeted.

While DPH operated within its budgeted Net County Cost, we recommend that DPH management re-evaluate the individual components of the Department's budget to ensure that individually they represent the best estimate of actual expected results.

Staff Vacancies/Overtime Controls

DPH has significant staff vacancies in its various programs, ranging from 16 to 23 percent. This has resulted in the Department increasing its use of overtime. For Fiscal Year 2007-08, the Department's budgeted overtime increased by \$1.3 million (or 52%) over the prior fiscal year's budget. According to DPH management, a significant portion of its overtime costs are due to staff vacancies.

Trust Funds

As of June 30, 2008, DPH's trust funds had a combined balance totaling approximately \$28.9 million. We reviewed four trust funds and noted that each of these funds had excessive balances because of a lack of management oversight and, as a result, DPH did not use the funds to pay for community education programs, prenatal outreach, related staffing costs, etc. Specifically:

- DPH consistently underutilizes its available Child Passenger Safety Seat Trust Fund. Specifically, DPH used only \$304,813 (23%) of the \$1.3 million in fine revenues deposited into the Trust Fund over the past three fiscal years.
- DPH is not using the Child Prenatal Outreach Trust Fund (CPOTF) to pay for Maternal and Child Health Program activities, including prenatal outreach. As of June 30, 2008, the CPOTF balance totaled \$2.1 million and no funds had been withdrawn from the Trust Fund in over three years.
- DPH's health permit and license fees continue to generate excess funds. These fees are deposited into the Department's Environmental Health Trust Fund pursuant to a May 1999 court order. As of June 30, 2008, the Environmental Health Trust Fund's balance totaled \$20.5 million. In addition, DPH sought and obtained Board of Supervisors approval to increase its fees while having excess monies in Trust.

DPH has no written plan to spend the remaining balance in the Vital and Health Statistics Trust Fund (V&HSTF). As of June 30, 2008, the V&HSTF balance totaled \$960,000.

Payroll/Personnel

- DPH does not always process employee termination transactions timely as required by the County Fiscal Manual. Three of 20 (15%) transactions reviewed were not processed within the deadline.
- Department of Health Services and Internal Services Department employees have access to DPH payroll/personnel information in the Countywide Timekeeping and Payroll/Personnel System (CWTAPPS). These employees should not have access to DPH payroll/personnel information. We brought this matter to DPH management's attention and they immediately began terminating these employees' access to DPH screens.
- No written CEO approval exists for ten employees whose Compensatory Time Off (CTO) balance exceeded the maximum limit of 160 hours established by County Code/CEO Policy. The CTO balances for the ten employees averaged 215 hours, or an average of 55 hours in excess of the maximum hours allowed.

Asset Management

The Department needs to improve its accountability over capital and non-capital assets. We noted that DPH's annual capital asset inventory (as of June 30, 2007) reported 219 (27%) of 799 items, valued at \$4.7 million, as "unable to locate." In addition, we sampled ten non-capital assets and could not locate five (50%), including three laptop computers. We also observed a "Mass Spectrometer," costing \$351,275, acquired in April 2007, still in its original packaging. The Department purchased the equipment to analyze chemical agents for its Chemical Terrorism Response Program.

Internal Control Certification Program

DPH management certified that required controls and procedures were in effect. However, we identified internal control weaknesses in areas such as payroll/personnel, asset management, and trust that should have been detected and corrected by DPH when completing the annual ICCP.

Details of these and other findings are included in the attached report.

Acknowledgement

We thank DPH management and staff for their cooperation throughout our review. On November 12, 2008, we discussed our report with Department management. Management's response, attached, indicates general agreement with the report's findings and that the Department has initiated efforts to implement our

recommendations. In 30 days, the Department will provide the Board with a detailed response and corrective action plan.

If you have any questions, please call me or your staff may contact DeWitt Roberts at (213) 253-0199.

WLW:MMO:DR
L:\DPH Fiscal Review

Attachments

c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, Director and Health Officer, Department of Public Health
Department Heads
Public Information Office
Audit Committee

Los Angeles County

Department of Public Health



Fiscal Review

January 26, 2009

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DEPARTMENT OF PUBLIC HEALTH FISCAL REVIEW

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DEPARTMENT OF PUBLIC HEALTH
COMMENTS AND RECOMMENDATIONS

Background

In July 2006, the Board of Supervisors established the Department of Public Health (DPH or Department) separate from the Department of Health Services. The programs assigned to the new Department consist of Public Health (PH), Office of AIDS Programs and Policy (OAPP), Alcohol and Drug Programs Administration (ADPA), Children's Medical Services (CMS), and the Antelope Valley Rehabilitation Center (AVRC). The Department's Fiscal Year 2007-08 approved budget was \$767 million and it employed approximately 4,400 employees.

We conducted a review of the Department's controls over its fiscal operations. Our review focused on evaluating the Department's internal controls and compliance with County policies and procedures in key fiscal areas, including procurement, revenue, expenditures, contracting, and payroll/personnel. We also reviewed the Department's budgetary performance and trust fund accounting controls.

Adherence to County Budget

DPH uses five budget units to account for the Department's General Fund operations. In examining the Department's adherence to its General Fund budget, we compared the actual financial results to the final budget for Fiscal Years 2007-08 and 2006-07. The results are summarized below:

Budget to Actual Financial Comparison Fiscal Year 2007-08			
	Budget	Actual	Over or (Under) Budget
Expenditures	\$793,469,000	\$763,108,480	(\$30,360,520)
Intrafund Transfer	\$46,121,000	\$42,428,606	(\$3,692,394)
Revenue	\$573,123,000	\$547,217,273	(\$25,905,727)
Net County Cost	\$174,225,000	\$173,462,601	(\$762,399)
Fiscal Year 2006-07			
	Budget	Actual	Over or (Under) Budget
Expenditures	\$725,739,000	\$696,101,787	(\$29,637,213)
Intrafund Transfer	\$45,068,000	\$43,620,196	(\$1,447,804)
Revenue	\$534,612,000	\$506,330,803	(\$28,281,197)
Net County Cost	\$146,059,000	\$146,150,788	\$91,788

The Department operated within its budgeted Net County Cost (NCC) during Fiscal Year 2007-08. In Fiscal Year 2006-07, the Department exceeded its NCC budget by a minor amount.

During both fiscal years, we noted that DPH collected significantly less revenue than budgeted and significantly underspent total budgeted expenditures. According to Department management, staff vacancies in its Public Health Programs and fewer contract awards in its Alcohol and Drug Programs were the primary causes for the Department's revenues and expenditures being under-realized. As a result, the Department neither incurred the related program expenditures nor generated the associated revenues.

Budgets help facilitate control over revenues and expenditures. Budgets also provide the most benefit when they represent the best estimate of actual expected results. Accordingly, DPH management needs to re-evaluate the individual components of the Department's budget to ensure that individually they represent the best estimate of actual expected results.

Recommendation

- 1. DPH management re-evaluate the individual components of the Department's budget to ensure that individually they represent the best estimate of actual expected results.**

Staff Vacancies

As noted above, DPH under-realized its budgeted revenues and expenditures due to staff vacancies. We reviewed the Department's vacancies and noted that for the fiscal year ended June 30, 2008, DPH experienced significant staff vacancies among its various programs, ranging from 16% to 23%.

Staff Vacancy Summary as of June 30, 2008					
DPH Programs	Budgeted Employees		Filled Positions		Vacant Positions
Alcohol and Drug Programs Administration	217		168 77%		49 23%
Children's Medical Services	948		773 82%		175 18%
Antelope Valley Rehabilitation Center	102		79 77%		23 23%
Public Health Programs	2,847		2,385 84%		462 16%
Office of AIDS Programs and Policy	242		192 79%		50 21%
Totals	4,356		3,597 83%		759 17%
Source: Department Finance Administration					

In addition, in Fiscal Year 2006-07, staff vacancies resulted in the Department exceeding its overtime budget and as a result, the Department significantly increased its Fiscal Year 2007-08 overtime budget to fund anticipated expenditures (i.e., budgeted

overtime increased \$1.3 million (52%), from \$2.5 million in Fiscal Year 2006-07 to \$3.8 million in Fiscal Year 2007-08) - See Overtime Controls section below for additional discussion.

Hiring new employees to offset overtime charges is often not cost effective because the pattern of overtime need does not always coincide with the additional hours provided by a new employee. However, because of the large amount of overtime worked at DPH, the potential exists that hiring additional staff in certain instances could reduce overtime hours by the full-time hours of the additional employees and achieve cost savings for the Department.

DPH management should re-evaluate overtime usage to determine if eliminating staff vacancies will result in overtime reductions greater than the cost of the additional employees. In those cases where hiring additional employees is cost effective, management should seek authority to hire and begin doing so.

Recommendation

- 2. DPH management re-evaluate its use of budgeted overtime to compensate for staff vacancies. In those cases where hiring additional employees is cost effective, seek authority to hire and begin doing so.**

Trust Fund Accounting

DPH maintains ten departmental trust funds and seven accounts within the County's Departmental Trust Fund (TK7). The TK7 accounts are set up to account for revenue collected from State and federal programs. As of June 30, 2008, the trust funds and TK7 accounts had a combined balance totaling approximately \$28.9 million. For four of its largest trust funds, we reviewed DPH's trust fund general controls, balances and transactions, and noted the following:

- **Fund DN8, Child Passenger Safety Seat Trust Fund** California Vehicle Code Section 27360 prohibits drivers from transporting children in motor vehicles without properly securing them in approved safety seats. Violations of the Vehicle Code are punishable by fines and in Los Angeles County, the collection of fine revenues are deposited into DPH's Child Passenger Safety Seat Trust Fund (CPSSTF or Trust Fund). The Code mandates that the fines be allocated to health departments of local jurisdictions where the violations occurred, to be used for community education programs that include, but is not limited to, demonstration of the installation of a child passenger restraint system for children of all ages and also assists an economically disadvantaged family in obtaining a restraint system through a low-cost purchase or loan (i.e., Child Passenger Safety Seat Program). As of June 30, 2008, the CPSSTF balance totaled \$1.7 million.

We determined that DPH consistently underutilizes its available CPSSTF monies. Specifically, of the \$1.3 million in fine revenues deposited into the Trust Fund over the past three fiscal years (i.e., 2005-06 through 2007-08), DPH used only \$304,813 (23%) of the available funds. According to the program manager, the CPSSTF contract agreements expired in 2003 and contract services were suspended until new contracts could be finalized. In November 2007, the Board of Supervisors approved the Department entering into new agreements for the provision of Child Passenger Safety Seat Program services through November 2008. During 2008, DPH began using its trust monies to contract for community education programs related to the Child Passenger Safety Seat Program.

- **Fund SU5, Maternal and Child Health Program - Child Prenatal Outreach Trust Fund** The Prenatal Outreach Program provides outreach and home visitation services to high-risk pregnant women to ensure they receive appropriate prenatal care. In 1997, the Maternal and Child Health – Child Prenatal Outreach Trust Fund (CPOTF) was established to account for interest earned by the Child Prenatal Outreach Program. According to the California Department of Health Services, local Maternal and Child Health Programs are allowed to use interest earned for program activities.

Our review determined that DPH is not using the CPOTF to pay for Maternal and Child Health Program activities, including prenatal outreach. As of June 30, 2008, the CPOTF balance totaled \$2.1 million and no funds had been withdrawn from the Trust Fund in over three years.

- **Fund S7K, Environmental Health Trust Fund** The Environmental Health Trust Fund was established in 2000 in response to a May 1999 court order that required all revenue generated by the future issuance of health permits or license fees be deposited into a segregated account and used only for expenditures on and within Los Angeles County's health inspection program. The court order also required the County to deposit \$10,890,608 in existing unspent permit and license fees into the segregated account and not raise its health permit and license fees until such time the excess funds were fully depleted. The excess funds were generated because the Department developed its fees based on the Environmental Health Program operating at or near its budgeted staffing, which did not occur. For the last three years, the Environmental Health Program averaged 730 budgeted positions, of which 112 (15%) were vacant.

Our review determined that DPH's health permit and license fees continue to generate excess funds. As of June 30, 2008, the Environmental Health Trust Fund's balance totaled \$20.5 million. An additional review determined that the Department depleted its Trust Fund balance by Fiscal Year ending 2001-02, but in subsequent fiscal years (i.e., Fiscal Years ending 2002-03 through 2007-08) the Department began to experience significant increases in its Trust Fund balance. Further, DPH sought and obtained Board of Supervisors' approval to

increase its fees while having excess monies in its Trust Fund (see Table 1 below).

Table 1		
Fiscal Year Ending	Trust Fund Balance	General Fee Increase
1999-00	\$7,308,015	0.00%
2000-01	\$1,831,781	0.00%
2001-02	(\$962,913)	15.50%
2002-03	\$1,052,963	4.00%
2003-04	\$1,515,533	5.00%
2004-05	\$4,641,156	5.00%
2005-06	\$6,388,393	5.00%
2006-07	\$14,160,148	3.00%
2007-08	\$20,546,499	5.00%

According to DPH management, they are taking action to reduce their Trust Fund balance by filling vacant positions. This action includes initiating monthly meetings with the Director of Environmental Health to develop strategies for the recruitment of new staff and posting job bulletins on university web-sites. Management believes that this action, along with expediting staff transfers and promotions, will help to reduce both the Environmental Health staff vacancies and the Trust Fund balance.

- **Fund BT9, Vital and Health Statistics Trust Fund** Existing law establishes a \$2 fee, in addition to all other fees imposed for death certificates to be collected by the State Registrar or appropriate county official. In 1988, the County established the Vital and Health Statistics Trust Fund (V&HSTF or Trust Fund) in response to the passage of Senate Bill 1535, which authorized the creation of a "Vital and Health Statistics Trust Fund" by local agencies charged with the collection of the \$2 fee. It required that \$1 of each \$2 fee to be deposited with the State Registrar and the remaining \$1 to be deposited into the collecting agency's V&HSTF. The Senate Bill provides that monies deposited into the Trust Fund can be used by county officials for death certificate information systems. As of June 30, 2008, the Trust Fund balance totaled \$960,000.

Although DPH periodically transfers funds from the Trust Fund to the County General Fund to reimburse it for program related expenditures, based on our discussion with the program manager, no written plan exists for spending the V&HSTF's remaining balance.

To improve its trust fund oversight, Department management needs to require program managers to submit annual spending plans for the provision of program services. DPH management also needs to closely monitor trust fund deposits and withdrawals to ensure program managers initiate appropriate and timely action to prevent the large accumulation of trust monies. In addition, DPH management should ensure that its health permits and license fees reasonably reflect the actual cost of operating the Environmental Health inspection programs, and should stop seeking Board of

Supervisors' approval to increase fees until such time the Environmental Health Trust Fund balance is depleted.

Recommendations

DPH management:

- 3. Require program managers to submit annual spending plans for the provision of program services.**
- 4. Closely monitor trust fund deposits and withdrawals to ensure program managers initiate appropriate and timely action to prevent the accumulation of trust monies.**
- 5. Ensure that health permits and license fees more reasonably reflect the actual cost of operating the Environmental Health inspection programs.**
- 6. Stop seeking Board of Supervisors' approval to increase health permit and license fees until such time the Environmental Health Trust Fund balance is depleted.**

Payroll and Personnel

The Countywide Timekeeping and Payroll/Personnel System (CWTAPPS) enables departments to process payroll/personnel actions (e.g., hires, changes in employee status, terminations, etc.) online. It also maintains a variety of employee data (e.g., birth dates, hire dates, social security numbers, etc.) and employee work histories. CWTAPPS also automates the leave record including leave balances and the disposition of year-end balances.

We examined the Department's compliance with County payroll and personnel policies to determine whether adequate safeguards are in place, employees are properly paid, and the integrity and confidentiality of payroll and personnel data is protected. Our review included interviewing staff and conducting testwork related to CWTAPPS security, bonuses, terminations, time and attendance records, compensatory time, overtime, leave accounting, and overpayment processing.

Overpayment Processing

Payroll overpayments can occur when an employee terminates County service or goes on an extended leave without pay and has received an advance that the employee was not entitled to and/or has not been recovered from salary payments. Once an advance has been issued, it must be recovered as a deduction from subsequent salary payments. The Auditor-Controller's Countywide Payroll Division issues a monthly report on overpayments and over-recoveries (i.e., Listing of Outstanding Arrears Deductions) to affected departments for use in monitoring these transactions.

County Fiscal Manual (CFM) Section 3.3.0 states that when payroll overpayments occur, every reasonable effort must be made to collect on all overpayments and collection efforts should be initiated immediately. In cases where the advance was over-recovered from the employee (e.g., deducted twice, etc.), a refund must be processed. At DPH, payroll overpayments and over-recoveries are not always processed timely.

We compared the Auditor-Controller's listing of DPH payroll overpayments and over-recoveries for October 2007 and April 2008, and identified four overpayment cases and two over-recovery cases, totaling \$4,394 and \$920 respectively, which were outstanding for at least six months. Three of the four overpayment cases involve current County employees, while both over-recovery cases involve employees who left County service. One of the employees terminated County service over 11 years ago.

DPH management should immediately initiate efforts to collect payroll overpayments and issue refunds of over-recovered advances, as appropriate. In addition, management should monitor the Auditor-Controller's monthly report to identify overpayment and over-recovery cases, and take action as necessary.

Recommendations

DPH management immediately:

- 7. Initiate efforts to collect payroll overpayments.**
- 8. Determine the nature of over-recovered advances and issue refunds, as appropriate.**
- 9. Monitor the Auditor-Controller's monthly report to identify overpayment and over-recovery cases, and take action as necessary.**

Non-FLSA Compensatory Time Off Accumulation

While most employees are covered by the provisions of FLSA, the regulations allow employers to designate certain employee jobs as exempt (i.e., exempt from the provisions of FLSA). Chapter 6.09 of the County Code establishes the various rules relating to overtime compensation for "exempt" employees and it empowers the CEO to establish limits on maximum Compensatory Time Off (CTO) accumulation. Under current CEO policy, each exempt employee is limited to a maximum accumulation of 160 overtime hours (or 20 working days), which may not be exceeded at any point in time. According to the CEO's memo to all department heads, dated December 22, 2004, "Any overtime that would otherwise exceed the 160 hour limit must be forfeited."

We reviewed the CTO balances of DPH employees as of April 2008 and noted that for ten employees, no written CEO approval exists for their excess CTO hours. The CTO balance for the ten employees averaged 215 hours, or an average of 55 hours in excess of the maximum allowed.

In the future, Department management should obtain CEO written approval prior to allowing DPH employees to exceed the CTO limit. In addition, management should monitor the accumulation of CTO by its employees to ensure compliance with the County Code/CEO Policy.

Recommendations

DPH management:

- 10. Ensure CEO written approval is obtained prior to allowing employees to accumulate overtime hours in excess of 160 hours.**
- 11. Monitor Compensatory Time Off to ensure employees do not accumulate overtime hours in excess of the maximum limit allowed by County Code/CEO Policy.**
- 12. As appropriate, initiate action to immediately forfeit the accrued compensatory time off for all exempt employees that have accumulated overtime hours in excess of the CEO's maximum limit. (Note: The names of the ten employees were provided to Department management.)**

Bilingual Bonuses

CFM Section 3.1.7 requires personnel management (or someone independent of entering job data on CWTAPPS) to review work assignments, personnel files and eligibility documents annually to ensure employees still qualify for their bonuses. The bonus review reports should be signed and dated by the person performing the review.

We reviewed the bilingual bonuses paid to DPH employees and noted that annual reviews are not always performed to ensure employees still qualify for their bonuses. Specifically, five (50%) of the ten personnel folders reviewed did not contain documentation authorizing the employees' bilingual bonus for their current positions. In one instance, an employee was authorized to receive a bonus for a position she held through August 1991, but when she was promoted in November 1993, a new authorization was not obtained.

DPH management should ensure that employee bonus pay is reviewed to determine if employees still qualify for their bonuses as required by CFM 3.1.7 and should terminate bonus pay for employees who no longer qualify for their bonus, as appropriate.

Recommendations

DPH management:

- 13. Ensure employee bonus eligibility is reviewed to determine if employees still qualify for their bonuses as required by CFM 3.1.7.**

- 14. Discontinue paying bonuses to employees who are determined to no longer qualify for their bonus, as appropriate.**

Timeliness of Terminations

CFM 3.1.7 requires each department to establish timeframes for processing and entering personnel actions such as terminations into CWTAPPS to coincide with the Auditor-Controller's deadline schedule. At DPH, termination transactions are not always processed within the Auditor-Controller's deadline requirement.

We reviewed 20 termination transactions and noted three (15%) were not entered into CWTAPPS timely. Two of the terminations were processed an average of 10 days after the Auditor-Controller's deadline, while one transaction was processed nearly one year (346 days) after the employee terminated. This processing delay resulted in the employee erroneously receiving an additional \$2,756 in their final pay, which the Department is attempting to collect. Processing delays at the employees' work unit and at DPH Personnel caused the three transactions not to be processed within the Auditor-Controller's deadline requirement.

Recommendation

- 15. DPH management closely monitor termination actions, follow up to determine the reasons for late actions, and take corrective actions where necessary.**

Verification of Terminations

CFM 3.1.7 requires that employee terminations originate in the Personnel Section and that Personnel management (or someone independent of entering job adjustments, time card adjustments and/or terminations on CWTAPPS) should maintain a listing of terminated employees. An employee with no payroll responsibilities should then trace the terminated employees' names to the CWPAY Payroll Sequence Register for at least three consecutive months. At DPH, payroll staff perform this function.

We traced the names of ten terminated DPH employees to the Payroll Sequence Register for three consecutive months and verified that (except for the employee noted above) the terminated employees did not receive pay after their termination.

Recommendation

- 16. DPH management ensure someone with no payroll responsibilities trace terminated employees' names to the Payroll Sequence Register for three consecutive months after termination.**

Warrants and Notices of Direct Deposit

CFM Section 3.1 states that departmental payroll sections should never be directly involved in receiving, distributing, storing or otherwise handling warrants and notices of direct deposit. In addition, the County Fiscal Manual states that individuals responsible

for investigating unclaimed warrants and notices of direct deposit should not have any personnel or payroll responsibilities.

At DPH, the Payroll section receives and distributes the Department's warrants and notices of direct deposit. In addition, unclaimed warrants are returned to the Payroll Section and investigated by Payroll staff.

Recommendations**DPH management:**

- 17. Assign the responsibility of receiving and distributing warrants/direct deposit notices to someone with no other payroll or personnel functions.**
- 18. Ensure unclaimed warrants are returned for investigation to someone independent of the payroll/personnel functions.**

Payroll Distribution Payoffs

Per CFM 3.1.11, payroll distribution payoffs (payoff) should be conducted on an unannounced basis at least once every 12 months by personnel with no other payroll or personnel responsibilities. This is to ensure that all persons receiving warrants or notices of direct deposit are bona fide County employees. A payoff is a process whereby warrants/direct deposit notices are released to employees only after each employee has shown proper identification and has signed for the warrant/direct deposit notice. At DPH, payoffs are not conducted at all pay locations. For example, during Fiscal Year 2007-08, DPH conducted payoffs at only five (6%) of its 90 Public Health Programs pay locations.

Recommendation

- 19. DPH management ensure unannounced payroll distribution payoffs are conducted as required by CFM 3.1.11.**

CWTAPPS Security

Access to confidential employee information in CWTAPPS should be restricted to appropriate DPH staff. An organization exposes itself to unnecessary risk if it does not establish controls over who can access, delete, and/or update the information contained in its computer systems. Security in the Countywide Timekeeping and Payroll/Personnel System (CWTAPPS) is enforced by using "profiles" and "processing centers."

Profile Security

Profiles determine which CWTAPPS screens a user can access and the specific actions (i.e., inquire, add, delete, and update) that can be processed on each screen. CFM Section 3.1.5 requires departments to restrict profiles to the scope of the employee's job responsibilities. Also, profiles that permit changes to both payroll and personnel information must be restricted to management and high level supervisory personnel. We noted the following:

- One non-management employee on loan from the Department of Health Services (DHS) has CWTAPPS access that allows him to view and perform all personnel functions on all Departmental screens. The employee should be restricted to functions needed to perform his job duties.
- Twenty-one DHS and Internal Services Department employees have access to DPH personnel and payroll information in CWTAPPS. These employees do not perform job duties that require access to DPH's Departmental screens and their access should be immediately cancelled. We brought this matter to the attention of DPH management who began the process of terminating the employees' access to the Departmental screens.
- DPH does not review the profile and processing assignments of employees at least quarterly to ensure compliance with all data access controls as required by CFM 3.1.5. The CWTAPPS Coordinator indicated a review was performed once in the last seven months.

DPH management should periodically review employees' assigned CWTAPPS access to ensure that profile assignments are restricted to the scope of the employees' job responsibilities. In addition, management should immediately terminate CWTAPPS access to employees whose job duties no longer require them to access the system. Management should also perform quarterly reviews of employee profiles and processing assignments and document that a review was performed in accordance with CFM 3.1.5. This will help strengthen controls by minimizing the likelihood of inappropriate transactions.

Recommendations**DPH management:**

- 20. Periodically review employees' CWTAPPS profile assignments and ensure they provide only enough system access for employees to perform their job duties.**
- 21. Immediately terminate CWTAPPS access for employees whose job duties no longer require them to access the system.**

- 22. Perform quarterly data access reviews and annotate, sign and date the security profile listing to document that a review was performed in accordance with CFM 3.1.5.**

Processing Centers

In addition to profiles, employees can be grouped into processing centers (e.g., by pay location, division, etc.) to further control the payroll and personnel information accessible to each authorized user. CFM Section 3.1.5 states that processing centers should be utilized so that payroll and personnel staff do not have access to their own payroll/personnel information on CWTAPPS.

Although DPH uses processing centers, we found two employees whose assigned processing centers allow them access to their own records on CWTAPPS. Based on their profiles, these employees can perform actions such as hires/promotions, access employee leave, bonus and warrant recipient information, and access personal employee information and job performance evaluations. We brought this matter to Management's attention who indicated that they will take action to modify the employees' assigned processing centers.

Recommendation

- 23. DPH management assign processing centers that prevent staff's access to their own payroll/personnel information on CWTAPPS.**

CWTAPPS Focus Reports

During our review, we identified 19 Department of Health Services' employees who still have the ability to generate CWTAPPS ad-hoc reports containing confidential DPH employee payroll and personnel information. The ability to generate CWTAPPS reports should be restricted to only those employees whose job duties require them to review confidential employee information.

Recommendation

- 24. DPH management ensure the ability to generate CWTAPPS ad-hoc reports is restricted to only those employees whose job duties require them to review confidential employee information.**

Overtime Controls

County Code Chapter 6.15 states that departments may require employees to work overtime when there is a business need. Each year, DPH allocates a portion of its salary and employee benefits budget to overtime. During Fiscal Year 2006-07, DPH budgeted \$2.5 million and its actual expenditures totaled \$3.2 million. For Fiscal Year 2007-08, the Department budgeted \$3.8 million and its actual expenditures totaled \$2.9 million. This represents a 52% increase in budgeted overtime, or \$1.3 million, and a

\$300,000 reduction in actual overtime expenditures. Department management stated that a significant portion of its overtime costs is due to staff vacancies.

We reviewed employee overtime usage between July 2007 and March 2008 (eight months) and noted 21 employees who worked in excess of 300 hours (equivalent to approximately two months time worked) of overtime. In one instance, an employee worked nearly 600 hours of overtime. County policy requires that non-emergency overtime be approved in advance and as such, each department must establish a system of authorizing and monitoring overtime.

We determined that DPH management does centrally monitor its overtime costs for budgetary compliance purposes, but does not always ensure that there is a business need for overtime hours worked at the program level (e.g., Environmental Health Programs, Health Facilities Division, etc.). For ten employees, we reviewed the overtime authorization forms for two months. In 22 (15%) of the 149 instances in which the employees worked overtime, DPH could not provide documentation to support the need for overtime hours worked. In 55 (37%) instances, management approved the non-emergency overtime hours after the employees worked the overtime.

In order to improve overtime controls and reduce overtime expenditures, DPH management should enforce County policy requiring pre-approval of non-emergency overtime. In addition, management should monitor the necessity for overtime worked and should develop guidelines such as: 1) Requiring monthly overtime reports indicating the hours worked and the general reasons for its necessity; and 2) Requiring specific explanations for employees working in excess of 40 overtime hours per month and the specific actions taken to reduce overtime use.

Recommendation

- 25. DPH management approve all non-emergency overtime in advance and develop guidelines for monitoring the necessity of overtime worked.**

Procurement

DPH has procurement units in PH, CMS and ADPA which are responsible for purchasing services and supplies, including reviewing requisitions, obtaining price quotes, reviewing invoices for accuracy and comparing invoices to purchase orders and receiving reports before authorizing payment. PH also provides procurement services for OAPP and AVRC. DPH's combined Fiscal Year 2007-08 Services and Supplies budget was over \$418 million.

We reviewed a sample of cash discounts, expenditure accruals, agreement purchases, non-agreement purchases, cellular telephone charges and found they were in compliance with both County Fiscal Manual and Internal Services Department procurement policies.

Recommendation

None.

Contracting

In Fiscal Year 2007-08, the Department managed over 360 contractors with contracts totaling approximately \$315 million. These contracts represented agreements with various agencies to provide education, treatment, prevention and counseling services related to substance abuse, AIDS, immunization, Sexually Transmitted Diseases, etc. We reviewed the Department's fiscal contract monitoring activities and its use of the Countywide Contract Monitoring System (CCMS) to prevent contract retroactivity, and noted the following:

Fiscal Contract Monitoring

DPH's Contract Monitoring Division (CMD or Division) is responsible for performing fiscal reviews of contractors to ensure services billed for were received and are in accordance with contract specifications. According to CMD management, its goal is to conduct a fiscal review of each contractor at least once every three years. Currently, CMD is not meeting its goal.

During Fiscal Year 2007-08, CMD reported 363 agencies in its contractor inventory, but reviewed only 61 (17%) agencies. Likewise, in Fiscal Year 2006-07, CMD conducted fiscal reviews on only 57 (16%) of its 354 contract agencies.¹ In order to meet its goal of conducting fiscal reviews once every three years, CMD will need to conduct approximately 60 additional reviews each year or 120 reviews.

According to CMD management, the Division has not met its goal due to staffing shortages. Management stated that it is currently hiring additional staff and anticipates meeting its goal once the Division becomes fully staffed. However, until such time this occurs, CMD management should consider engaging an outside consultant to supplement its fiscal monitoring of DPH contractors. This can help eliminate CMD's backlog of pending fiscal reviews and ensure that the County is receiving and paying for services in accordance with contract specifications.

Recommendation

- 26. DPH management consider engaging a consultant to supplement its fiscal monitoring of DPH contractors.**

¹ The Auditor-Controller's Contract Monitoring Division provides contract monitoring assistance to DPH's Contract Monitoring Division. During Fiscal 2006-07 and 2007-08, Auditor-Controller Contract Monitoring staff completed 23 (19%) of the 118 (61 + 57) contract reviews. CMD staff completed the remaining 95 (81%) reviews.

Asset Management

Capital Assets

CFM Section 6.1.3 requires departments to complete an inventory of capital asset equipment at least annually with reports of missing items filed with the Capital Assets Unit of the Auditor-Controller by December 31 of each year. We noted that DPH completed its annual inventory (as of June 30, 2007) in April 2008 and reported 219 (27%) of 799 items, valued at \$4.7 million, as “unable to locate.”

To test the accuracy of DPH’s master inventory listing, we selected a sample of ten items from the listing and attempted to physically locate them. We were able to locate all ten items, including a 2003 Ford Van shown on the listing as “unable to locate.” We also noted the following:

- Three (30%) items did not have a property tag (County identification number) attached. Per CFM Section 6.2.1, a property tag should be attached to a capital asset when the asset is received.
- Two (20%) items were not in use. The first item, a “Mass Spectrometer,” costing \$351,275, was acquired in April 2007 and is still in its original packaging. The Department purchased the equipment to analyze chemical agents for its Chemical Terrorism Response Program. DPH management stated that the Mass Spectrometer had not been placed into service due to the pending relocation of its Chemistry Lab and the need for staff training, which has not yet occurred. In addition, the Department purchased a four-year warranty and maintenance package for the equipment at a total cost of \$135,000 (or \$33,500 per year).

The second item, a “Video Editing Mixer,” was purchased in 2004 as a component of a \$120,617 video system. According to management, the Video Editing Mixer is currently not needed for the Department’s video editing purposes. According to CFM section 6.10.1, surplus property shall be disposed of by each County department and departments should contact Internal Services Department (ISD) regarding the appropriate procedure to follow when disposing of surplus property.

In addition, we selected ten capital assets from throughout the Department and traced them to DPH’s master inventory listing. Two (20%) items could not be traced to the inventory listing. These items included a network enterprise server and a 2000 Ford Crown Victoria. One item, a 2001 Chevrolet Malibu, we observed in the parking lot had been identified on the Department’s master inventory listing as “unable to locate.”

We also reviewed Internal Services Department’s listing of Department-owned vehicles and noted that 24 (24%) of 102 vehicles assigned to DPH were not on the Capital Asset Listing.

DPH management needs to ensure that an accurate master capital asset listing is maintained, missing items are adequately investigated, and capital assets are tagged in accordance with County Fiscal Manual requirements. In addition, DPH management needs to take immediate action to ensure that its Mass Spectrometer is placed into service within a reasonable time period and any further delays in placing it into service must be immediately reported to the CEO and Board Supervisors. The Department should also contact ISD regarding the disposal of its surplus video mixing equipment.

Recommendations

DPH management:

- 27. Ensure the Department's master capital asset listing is accurate and that missing items are investigated before being reported to the Auditor-Controller as "unable to locate."**
- 28. Ensure that a property tag (County identification number) is securely affixed to all capital asset items as they are received.**
- 29. Take immediate action to ensure that its Mass Spectrometer is placed into service within a reasonable time period and any further delays in placing it into service must be immediately reported to the CEO and Board Supervisors.**
- 30. Contact the ISD regarding the disposal of surplus equipment as required by CFM 6.10.1.**

Non-Capital Assets

CFM Section 6.8.2 requires departments to maintain a department-wide list of all non-capital asset equipment (formerly portable equipment) and the name of the individual each item is assigned to. At each location, all items not permanently assigned to individuals should be assigned to the individual who is responsible for securing/controlling the items when they are not being used. These requirements are designed to minimize the risk of non-capital assets being misappropriated without being detected and to help ensure that the accounting records are accurate and complete.

The Department's Materials Management Manager is responsible for maintaining the master non-capital asset inventory listing. Additionally, designated staff at program offices are responsible for maintaining a list of non-capital asset equipment assigned to staff within each program. We sampled ten non-capital assets listed on the Department's master non-capital asset listing and noted the following:

- Five (50%) items could not be located and three of the five items were laptop computers. Management could not identify the laptops' assigned users and was unable to determine when the laptops became missing. Also, management did not know whether the laptops contained sensitive/confidential information and

whether the information was encrypted as required by Board of Supervisors Policy 6.110 – Protection of Information on Portable Computing Devices.

- One (10%) item did not have a department-issued asset tag number attached.
- One (10%) item had been salvaged. However, it had not been removed from the Department's inventory listing.

We also sampled ten non-capital asset items from throughout the Department and traced them to DPH's inventory listings. We noted two (20%) items (i.e., a laptop and printer) that had not been recorded on the inventory listing.

Recommendations

DPH management ensure:

- 31. The Department's non-capital assets listing is accurate and that missing items are reported and appropriately investigated.**
- 32. All laptop computers are encrypted to ensure confidential and sensitive information are protected in case they are lost or stolen.**
- 33. That a department-issued asset tag number is securely affixed to all non-capital asset items for tracking purposes.**

Salvaged Assets

According to CFM Section 6.6.0, departments must complete a "Disposition Document" form when disposing of their equipment items. From DPH's Capital Assets Listing, we sampled five items identified as "salvaged" and requested documentation to support the assets' salvaged status. For all five assets, the Department could not provide us with the requested documentation. The five assets had a combined value of approximately \$136,000 and included a photocopier, "Spectrum Analyzer," and Ford truck.

We provided DPH management with information (e.g., description, serial number, etc.) on each asset and requested that they perform additional review to determine if the assets were salvaged, lost, stolen, destroyed, etc. As appropriate, DPH management should also prepare and retain the required documentation to support the disposal of its County assets.

Recommendation

- 34. DPH management ensure the disposal of County assets is documented in accordance with CFM 6.6.0.**

Travel Expenses

Public Health Program (Program) employees travel primarily for job related responsibilities such as professional training and conference attendance. During Fiscal Year 2007-08, the Program's travel related expenditures totaled \$1.3 million.

Travel Requests/Advances

We interviewed Department management, reviewed payment listings, and sampled transactions to determine whether the Department properly monitors and controls travel expenses. Our review included assessing whether the Department's travel expenses were properly authorized, accurate, and consistent with County travel policies.

Based on our testwork and observations, DPH management needs to increase its monitoring of employee travel activities to ensure compliance with County travel policies.

We sampled 20 travel expense reports and 20 travel advance requests and noted the following:

- Eight claimants did not obtain approval of their travel request in advance of making travel arrangements.
- Two claimants, with travel advances totaling \$4,344, did not submit their travel expense claim within two weeks after completion of travel as required by County travel policies. As a result, we could not determine whether the advances were used for approved purposes or whether the amounts advanced exceeded the employee's actual expenses.

According to County Travel Policy, the Department should initiate collection of the entire travel advance when an employee does not submit a complete expense claim within two weeks after completing their travel. At DPH, this is not done.

- Six claimants did not use a County travel agency to make their flight reservations and did not provide documentation to show their reservation was less expensive than if one of the County travel agencies made the reservations. Per CFM 13.2.1, County business travelers are encouraged to make reservations through one of the four contract travel agencies. However, travelers may choose to make their reservations directly with another source, as long as they can demonstrate their reservation is less expensive than if one of the travel agencies made the reservation.
- Two claimants completed conference registration after the early registration deadline, resulting in additional travel expenses of \$820 and \$50, respectively.

We also noted that DPH frequently issues travel advances to its employees. During Fiscal Year 2007-08, DPH issued over 400 travel advances. CFM Section 13.9.0

discourages departments from providing employees with travel advances because they create additional work for departmental staff. However, if necessary, and approved by the Department Head or his designee, no more than 75% of the estimated travel expenses may be advanced to the employee. Specifically, if an advance is not sufficient to cover the employee's actual travel costs, the Department must generate a second warrant to reimburse the employee for the additional expenses. If an employee's travel advance is in excess of their travel costs, the employee must refund the excess funds to the Department.

From our review of DPH's Travel Advances/Reimbursement Log, we also identified two instances in which employees did not reimburse the Department for \$700 in travel advances in excess of their travel expenses. The employees completed their travel in March 2007, but the Department has not initiated collection efforts.

Recommendations

DPH management:

- 35. Monitor to ensure employees submit travel expense reports and supporting documents timely.**
- 36. Require employees to obtain approval for all travel before making travel arrangements.**
- 37. Encourage employees to make flight reservations through one of the County's four contract travel agencies, but if they choose not to do so, require them to demonstrate their reservation is less expensive than if one of the travel agencies made the reservation.**
- 38. Discourage the issuance of travel advances to employees. However, if necessary and approved by the Department Head or his designee, advance no more than 75% of the estimated travel expenses.**
- 39. Initiate collection of the entire travel advance if an employee does not submit a complete and timely expense claim.**
- 40. Encourage employees to take advantage of early registration discounts, as appropriate.**

Reconciliation of Travel Billing Statements

Each month, the Auditor-Controller's Disbursement Division sends DPH a travel billing report that lists travel charges assessed to the Department. DPH management indicated that they review the travel billing report to ensure the travelers are the Department's employees and the period of travel is accurate. They also verify that an approved travel request is on file for each traveler to ensure that the Department pays for only authorized employee travel.

We reviewed DPH's travel billing reports for the period July 2007 through March 2008 and noted nine instances where travelers did not submit approved travel requests in advance. In addition, DPH management did not follow up with the employees to verify the validity of the travel billings or to obtain a copy of their approved travel requests.

Recommendation

- 41. DPH management ensure that all travel expenses are for authorized employee travel.**

Mileage Reimbursement Claims

CFM Section 13.12 states that all vehicle travel on County business must be reported for each day traveled on the Mileage Claim. The first entry for each day traveled will show the date, the starting time, starting location and city, and the odometer reading when starting. Additional entries each day will show the time arrived at the location, the address and city, the odometer reading, the miles traveled and the purpose of the trip. Each line used must be completed with all information requested. In addition, the County Fiscal Manual requires the departmental mileage clerk to ensure mileage claims are complete prior to authorizing payment through CWTAPPS. At DPH, these County Fiscal Manual requirements are not always met.

We reviewed 14 Mileage Claims and noted six (43%) instances in which the claimants completed only the date and miles traveled for each travel day. The employees (i.e., claimants) did not complete any of the other required daily Mileage Claim entries such as starting and ending addresses, odometer readings, starting and arrival times, and purpose of trip. Upon further review, we determined that Environmental Health Services employees submitted all six Claims. We reviewed an additional 25 Mileage Claims for employees of Environmental Health Services and noted that all 25 Claims were incomplete, but were processed and paid. The amount paid totaled \$3,575.

Without a properly completed Mileage Claim, it is impossible to determine if the amount claimed is accurate and that the County is paying for only reimbursable expenses. DPH management should immediately remind its mileage permittees of the need to submit complete Mileage Claims. In addition, management should instruct departmental mileage clerks to reject all incomplete Mileage Claims and not process them for payment.

Recommendations

DPH management:

- 42. Immediately remind the Department's mileage permittees of the need to submit complete Mileage Claims.**
- 43. Instruct departmental mileage clerks to reject all incomplete Mileage Claims and not process them for payment.**

Warehouse Controls

CFM Section 5.2.6 requires that perpetual inventory records be established for large inventories, with additions and reductions of inventory items recorded as they occur, to the extent practicable.

DPH has twenty six Warehouse/Storage Locations that contain office and custodial supplies, confiscated food carts and other equipment. We sampled 38 inventory items at two warehouses to review DPH's compliance with the County Fiscal Manual inventory requirements and we noted the following:

- 100% of supply room inventory quantities matched our physical inventory count.
- Controls are in place to record additions and deletions of supply inventory as they occur.
- Procedures are followed at these warehouses to monitor inventory levels at least twice per month to ensure minimal stock levels are maintained.

Recommendation

None.

County Internal Control Certification Program

County Code Section 2.10.015 requires County departments to annually evaluate their fiscal controls using the Internal Control Certification Program (ICCP). The ICCP gives departments the ability to assess their own internal controls and take corrective action to ensure compliance with County policies and procedures. Specific internal control policies, procedures and practices are essential to safeguard the Department's assets, provide accurate financial records, ensure compliance with policies and promote efficient and effective operations.

Many of the deficiencies we identified in the payroll/personnel, asset management, mileage, and travel sections of this report were not identified when Department staff completed the related sections of the Fiscal Year 2006-07 ICCP. DPH management should require staff to accurately complete the ICCP questionnaires for all applicable assessable units, identify weaknesses, and develop an improvement plan to address each internal control weakness. Department management should review completed ICCP questionnaires and improvement plans, and should monitor to ensure the timely implementation of corrective action.

Recommendations

DPH management:

- 44. Require staff to accurately complete the Internal Control Certification Program questionnaires for all applicable assessable units, identify all internal control weaknesses, and develop an improvement plan to address each control weakness.**
- 45. Review completed Internal Control Certification Program questionnaires and improvement plans, and monitor to ensure the timely implementation of corrective action.**



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December 3, 2008

REVISED

TO: Wendy L. Watanabe, Acting
Auditor-Controller

FROM: Jonathan E. Freedman
Chief Deputy Director

SUBJECT: **FISCAL REVIEW RESPONSE**

Thank you for the opportunity to review your audit report on our fiscal operations. We generally agree with your findings and have initiated efforts to implement the recommendations. We will work collaboratively with your office to ensure our corrective steps are consistent with County standards and policies. We will provide a more detailed response to the Board within 30 days of your report.

We also would like to thank your project team for their effort and professionalism, and look forward to working together in the future.

If you have any questions or need additional information, please let me know, or you may contact Miles Yokota at (323) 869-8502.

JEF:rl

c: Jonathan E. Fielding, M.D., M.P.H.
DeWitt Roberts
Miles Yokota